

CITY OF ECORSE HOUSING COMMISSION
ECORSE, MICHIGAN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
AND
REPORTS ON COMPLIANCE AND
ON INTERNAL CONTROL

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name City of Ecorse Housing Commission	County Wayne
Fiscal Year End June 30, 2007	Opinion Date March 6, 2008	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

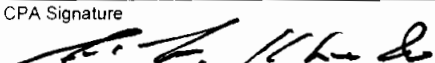
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Sailor, Khan & Co., LLC		Telephone Number 314-726-3308	
Street Address P.O. Box 16180		City St. Louis	State MO
		Zip 63105	
Authorizing CPA Signature 		Printed Name Shah I Khan, C.P.A.	License Number 1102001772

CITY OF ECORSE HOUSING COMMISSION
Ecorse, Michigan

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Sailor

Certified Public Accountants

Khan & Co. LLC

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
City of Ecorse Housing Commission
Ecorse, Michigan

We have audited the accompanying basic financial statements of the City of Ecorse Housing Commission, Michigan, (Commission) as of and for the year ended June 30, 2007, as listed in the table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of the weak condition of the Commission's records and due to lack of controls over its tenant accounts receivable accounting system, the integrity of the tenants accounts receivable among other related items in the financial statements appears to be questionable. Consequently, we were unable to adequately validate these financial items through the use of alternative procedures.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to adequately determine the validity of the aforementioned matters, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of Ecorse Housing Commission, Michigan, as of June 30, 2007, and the changes in its financial position and its cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

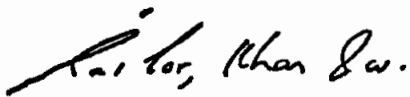
In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2008, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages ii to vi is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Sailor

Khan & Co. LLC

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the remaining accompanying supplemental information including the Financial Data Schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for the matters discussed in the third paragraph, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to adequately determine the validity of the aforementioned items, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Sailor, Khan & Co. LLC

March 6, 2008

City of Ecorse Housing Commission

Management's Discussion and Analysis (MD&A)

June 30, 2007

(Unaudited)

This section of the City of Ecorse Housing Commission (Commission) annual financial report presents our management's discussion and analysis of the Commission's financial performance during the fiscal year ended on June 30, 2007. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Please read and consider the information presented in conjunction with the financial statements as a whole.

For accounting purposes, the Housing Commission is classified as an enterprise fund. Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

FINANCIAL HIGHLIGHTS

The term "net assets" refers to the difference between assets and liabilities. The Commission's total net assets as of June 30, 2007 were \$4,565,290. The net assets decreased by \$267,697, a decrease of 5.5% over the prior year.

Revenues and contributions for the Commission were \$1,153,252 for the year ended June 30, 2007. This was an increase of \$108,165 or 10.4% from the prior year.

Expenses for the Commission were \$1,628,013 for the year ended June 30, 2007. This was an increase of \$286,803 or 21.4% from the prior year.

HUD operating grants were \$750,119 for the year ended June 30, 2007. This was an increase of \$153,147 or 25.7% over the prior year. Capital contributions for the Commission were \$161,517 for the year ended June 30, 2007. This was a decrease of \$4,859 or 2.9% over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this *Management Discussion and Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented as fund level financial statements because the Commission only has proprietary funds.

Required Financial Statements

The financial statements of the Housing Commission report information of the Commission using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes all the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the capital structure of the Commission and assessing the liquidity and financial flexibility of the Commission.

**City of Ecorse Housing Commission
(Unaudited)
Management's Discussion and Analysis (MD&A) - Continued**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established *Uniform Financial Reporting Standards* that require Housing Commission's to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) for the year ended June 30, 2007 and is required to be included in the audit reporting package.

FINANCIAL ANALYSIS

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the table on the following page, assets exceeded liabilities by \$4,565,290 at the close of the year ended June 30, 2007 down from \$4,832,987 in 2006. The decrease in net assets of \$267,697 was due to the change in net assets for the year.

The unrestricted net assets were \$72,126 as of June 30, 2007. This amount may be used to meet the Commission's ongoing obligations. The Commission had no net assets classified as restricted that are subject to external restrictions on how they may be used. At the end of the current fiscal year, the Commission is able to report positive balances in all categories of net assets. The same situation was not true for the prior fiscal year.

Current and other assets decreased due to a significant decrease in cash and cash equivalents and a decrease in accounts receivable for the year. Current liabilities decreased due to a significant decrease in accounts payable for the year.

City of Ecorse Housing Commission
(Unaudited)
Management's Discussion and Analysis (MD&A) - Continued

FINANCIAL ANALYSIS (CONTINUED)

CONDENSED STATEMENTS OF NET ASSETS
JUNE 30,

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 188,062	\$ 351,753	\$ (163,691)	-46.5%
Capital assets	<u>4,493,164</u>	<u>4,788,578</u>	<u>(295,414)</u>	-6.2%
Total Assets	<u>4,681,226</u>	<u>5,140,331</u>	<u>(459,105)</u>	-8.9%
Current liabilities	108,862	300,977	(192,115)	-63.8%
Noncurrent liabilities	<u>7,074</u>	<u>6,367</u>	<u>707</u>	10.0%
Total Liabilities	<u>115,936</u>	<u>307,344</u>	<u>(191,408)</u>	-62.3%
Net Assets				
Invested in capital assets	4,493,164	4,788,578	(295,414)	-6.2%
Unrestricted	<u>72,126</u>	<u>44,409</u>	<u>27,717</u>	62.4%
Total Net Assets	<u>\$ 4,565,290</u>	<u>\$ 4,832,987</u>	<u>\$ (267,697)</u>	-5.5%

The largest portion of the Commission's net assets reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The Commission uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending.

While the Statement of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

As can be seen in the table on the following page total revenues and contributions increased by \$108,165 due to increases in HUD operating grants and other income, which were partially offset by decreases in rental revenue, capital contributions and interest income.

City of Ecorse Housing Commission
(Unaudited)
Management's Discussion and Analysis (MD&A) - Continued

FINANCIAL ANALYSIS (CONTINUED)

**CONDENSED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30,**

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues and Contributions				
Operating - non-operating -capital contributions:				
Rental revenue	\$ 215,840	\$ 272,834	\$ (56,994)	-20.9%
HUD operating grants	750,119	596,972	153,147	25.7%
Interest income	3,369	3,419	(50)	-1.5%
Capital Contributions	161,517	166,376	(4,859)	-2.9%
Other income	22,407	5,486	16,921	75.5%
Total Revenues and Contributions	<u>1,153,252</u>	<u>1,045,087</u>	<u>108,165</u>	10.4%
Expenses				
Personal services	396,997	354,975	42,022	11.8%
Utilities	123,206	100,893	22,313	22.1%
Operations and maintenance	308,609	206,035	102,574	49.8%
Insurance	86,120	77,616	8,504	11.0%
Payment in lieu of taxes	18,555	16,857	1,698	10.1%
Other supplies and expenses	237,235	121,354	115,881	95.5%
Loss on disposition of fixed assets	----	4,063	(4,063)	-100.0%
Depreciation	457,291	459,417	(2,126)	-0.5%
Total Expenses	<u>1,628,013</u>	<u>1,341,210</u>	<u>286,803</u>	21.4%
Change in net assets	(474,761)	(296,123)	(178,638)	
Beginning net assets	4,832,987	5,129,110	(296,123)	
Prior period adjustments	<u>207,064</u>	<u>----</u>	<u>207,064</u>	
Beginning net assets, adjusted	<u>5,040,051</u>	<u>5,129,110</u>	<u>(89,059)</u>	
Ending net assets	<u>\$ 4,565,290</u>	<u>\$ 4,832,987</u>	<u>\$ (267,697)</u>	

Total expenses for the Commission increased by \$286,803 due to increases in personal services, utilities, operations and maintenance, insurance, payment in lieu of taxes and other supplies and expenses, which were slightly offset by a decrease in depreciation.

**City of Ecorse Housing Commission
(Unaudited)
Management's Discussion and Analysis (MD&A) - Continued**

CAPITAL ASSETS

Capital Assets - The City of Ecorse Housing Commission's investment in capital assets, as of June 30, 2007 amounts to \$4,493,164 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment and construction in progress.

**CAPITAL ASSETS
NET OF ACCUMULATED DEPRECIATION
JUNE 30,**

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>
Land	\$ 494,047	\$ 494,047	\$ ----
Building	10,399,054	10,399,054	----
Furniture, equipment and machinery- dwelling	126,733	142,487	(15,754)
Furniture, equipment and machinery- administration	218,578	218,218	360
Leasehold improvements	1,666,386	1,666,386	----
Construction in progress	<u>425,481</u>	<u>263,964</u>	<u>161,517</u>
	13,330,279	13,184,156	146,123
Accumulated depreciation	<u>8,837,115</u>	<u>8,395,578</u>	<u>441,537</u>
Total	<u>\$ 4,493,164</u>	<u>\$ 4,788,578</u>	<u>\$ (295,414)</u>

The total decrease in the Commission's capital assets for the current fiscal year was \$295,414 or 6.2% in terms of net book value. Actual expenditures to purchase equipment and construct capital assets were \$161,517 for the year. The Commission has \$381,315 available in Capital Funds to draw down and spend in the future.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Housing Commission is primarily dependent upon HUD for the funding of operations; therefore, the Housing Commission is affected more by the Federal budget than by local economic conditions. The funding of programs could be significantly affected by the 2007 Federal budget.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Executive Director, City of Ecorse Housing Commission, 266 Hyacinth, Ecorse, Michigan 48229.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

STATEMENT OF NET ASSETS

June 30, 2007

ASSETS

Current Assets:

Investments	\$ 122,384.21
Receivable - net of allowances:	
Accounts	15,641.84
Prepaid expenses	<u>50,035.97</u>
Total Current Assets	<u>188,062.02</u>

Noncurrent Assets:

Capital assets:

Land, improvements, and construction in progress	919,527.91
Other capital assets, net of depreciation	<u>3,573,636.45</u>
Total capital assets- net	<u>4,493,164.36</u>
Total Noncurrent Assets	<u>4,493,164.36</u>

Total Assets	<u>\$ 4,681,226.38</u>
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See notes to financial statements

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

STATEMENT OF NET ASSETS (CONTINUED)

June 30, 2007

LIABILITIES

Current Liabilities:

Bank overdraft	\$ 27,608.88
Accounts Payable	36,628.61
Accrued compensated absences	12,431.00
Tenant security deposit liability	25,912.00
Deferred revenues	<u>6,281.81</u>

Total Current Liabilities 108,862.30

Noncurrent Liabilities:

Accrued compensated absences	<u>7,074.10</u>
------------------------------	-----------------

Total Noncurrent Liabilities 7,074.10

Total Liabilities 115,936.40

NET ASSETS

Invested in capital assets	4,493,164.36
Unrestricted	<u>72,125.62</u>

Total Net Assets 4,565,289.98

Total Liabilities and Net Assets \$ 4,681,226.38

See notes to financial statements

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

For Year Ended June 30, 2007

Operating Revenues:

Rental revenue	\$ 215,839.76
Operating subsidies- HUD grants	750,119.03
Other revenues	<u>22,407.66</u>

Total operating revenues 988,366.45

Operating Expenses:

Personal services	396,997.39
Utilities	123,205.91
Operations and maintenance	308,608.97
Insurance	86,120.47
Payment in lieu of taxes	18,555.03
Other supplies and expenses	237,235.05
Depreciation	<u>457,290.63</u>

Total operating expenses 1,628,013.45

Operating income (loss) (639,647.00)

Non-operating revenues (expenses):

Interest and investment earnings	<u>3,368.66</u>
----------------------------------	-----------------

Net non-operating revenues (expenses) 3,368.66

Income (loss) before other revenues, expenses,
gains, losses and transfers (636,278.34)

Capital contributions 161,517.22

Change in net assets (474,761.12)

Net assets at beginning of year 4,832,987.26

Prior period error corrections 207,063.84

Net assets adjusted at beginning of year 5,040,051.10

Net assets at end of year \$ 4,565,289.98

See notes to financial statements

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

STATEMENT OF CASH FLOWS

For Year Ended June 30, 2007

Cash flows from operating activities:

Cash received from tenants	\$ 217,899.74
Cash received from HUD grants- operating	843,850.64
Cash received from other operating activities	22,407.66
Cash payments for goods and services	(741,706.98)
Cash payments to employees-salaries	(304,639.38)
Cash payments for employee benefit contributions	(83,081.29)
Cash payments for in lieu of property taxes	<u>(9,180.39)</u>

Net cash provided (used) by operating activities (54,450.00)

Cash flows from capital and related financing activities:

Capital contributions	161,517.22
Payments for capital assets	<u>(161,517.22)</u>

Net cash (used) for capital and related financing activities -----

Cash flows from investing activities:

Proceeds from sale of (payments) for investments	(3,112.28)
Interest and dividends	3,368.66
Receipts (payments) from tenant security deposits	<u>(21,321.00)</u>

Net cash provided (used) from investing activities (21,064.32)

Net increase (decrease) in cash and cash equivalents	(75,514.62)
Cash and cash equivalents at beginning of year	<u>75,514.62</u>

Cash and cash equivalents at end of year \$ -----

See notes to financial statements

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

STATEMENT OF CASH FLOWS (CONTINUED)

For Year Ended June 30, 2007

**Reconciliation of operating income (loss) to net cash
provided (used) by operating activities:**

Operating income (loss)	\$ (639,647.00)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	457,290.63
Allowance for doubtful accounts	25,915.70
Changes in assets and liabilities:	
Receivables	66,791.63
Prepaid expenses	(1,418.45)
Accounts and other payables	24,256.51
Deferred revenues	3,084.26
Compensated absences	12,430.86
Accrued expenses	<u>(3,154.14)</u>
Net cash provided (used) by operating activities	<u>\$ (54,450.00)</u>

See notes to financial statements

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 - Summary of Significant Accounting Policies

The City of Ecorse Housing Commission (Commission) is a non-profit entity established to provide low-rent housing, under the low rent program Annual Contributions Contract for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal agencies.

The Housing Commission complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Housing Commission the option of electing to apply FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict a GASB pronouncement. The Housing Commission has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1a. Financial Reporting Entity

The Housing Commission's financial reporting entity comprises the following:

Primary Government: Housing Commission

In determining the financial reporting entity, the Housing Commission complies with the provisions of GASB Statement No. 14 as amended by GASB No. 39, "The Financial Reporting Entity," and includes all component units, if any, of which the Housing Commission appointed a voting majority of the units' board; the Housing Commission is either able to impose its will on the unit or a financial benefit or burden relationship exists. There are no agencies, organizations or activities meeting this criteria.

1b. Basis of Presentation

Financial statements of the reporting entity's programs are organized and reported as an enterprise fund and are accounted for by providing a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Enterprise funds are used to account for business-like activities provided to its tenants. These activities are financed primarily by user charges and/or Federal funding and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes all of the Commission's programs as an enterprise fund.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1b. Basis of Presentation (Continued)

Following is a description of the Commission's programs:

Program	Brief Description
Low Rent	Accounts for activities of the Public and Indian Housing program which HUD provides an annual subsidy to help public housing agencies (PHAs) pay some of the cost of operating and maintaining public housing units.
Capital Fund Program	Accounts for activities of the Capital Fund which provides funds to housing authorities to modernize public housing developments.

1c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the financial statements, the "economic resources" measurement focus is used as follows:

- ▶ The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the financial statements, the proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

1d. Assets, Liabilities, and Equity

Cash and Investments

For the purpose of the Statement of Net Assets, "cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. For the purpose of the Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1d. Assets, Liabilities, and Equity (Continued)

Cash and Investments (Continued)

Investments are carried at fair value except for short-term U.S. Treasury obligations, if any, with a remaining maturity at the time of purchase of one year or less. Those investments, if any, are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2b. and 3a.

Interprogram Receivables and Payables

During the course of operations, numerous transactions occur within individual programs that may result in amounts owed between these programs. Offsetting interprograms are eliminated for financial statement presentation.

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Tenant accounts receivable compose the majority of receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inventories

Inventories are valued at average cost, and consist of expendable supplies held for consumption. The cost of inventories are recorded as expenditures when consumed, rather than when purchased.

Budgets and Budgetary Accounting

The Commission adopts a formal operating budget each year for its operating programs and on a project length basis for its capital expenditures which are approved by the Board of Commissioners and submitted to the Department of Housing and Urban Development for their approval, if required.

Estimates and Assumptions

The Commission uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Id. Assets, Liabilities, and Equity (Continued)

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) is as follows:

In the financial statements, capital assets purchased or acquired with an original cost of \$500.00 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense depending on the program where the asset is shown, in the Statement of Revenues, Expenses and Changes in Net Assets, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	15 - 30 years
Furniture, equipment and machinery - dwelling	7 - 15 years
Furniture, equipment and machinery - administration	3 - 10 years
Leasehold improvements	15 - 20 years

Compensated Absences

The Housing Commission's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as short-term and long-term liabilities based on historical trends. In accordance with the provisions of GASB Statement No. 16, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Equity Classifications

Equity is classified as net assets and displayed in two components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. The Commission had no related debt.
- b. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1e. Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing services and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Non-operating revenues and expenses are those that are not operating in nature.

Interfund Transfers

For the purposes of the Statement of Revenues, Expenses and Change in Net Assets, all interfund transfers between individual programs, if any, have been eliminated.

NOTE 2 - Stewardship, Compliance, and Accountability

The Commission and its component units, if any, are subject to various federal, state, and local laws and contractual regulations. An analysis of the Commission's compliance with significant laws and regulations and demonstration of its stewardship over Commission resources follows.

2a. Program Accounting Requirements

The Commission complies with all state and local laws and regulations requiring the use of separate programs. The programs used by the Commission are as follows:

Program	Required By
Public and Indian Housing	U.S. Department of Housing and Urban Development
Capital Fund Program	U.S. Department of Housing and Urban Development

2b. Deposits and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of the Commission in financial institutions must be secured with acceptable collateral valued at the lower of market or par. All financial institutions pledging collateral to the Commission must have a written collateral agreement. As reflected in Note 3a., all deposits were fully insured or collateralized.

Investments of the Commission are limited by state law to the following:

- a. Direct obligations of the U.S. Government or its agencies or instrumentalities to which acceptable collateral is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE 2 - Stewardship, Compliance, and Accountability (Continued)

2c. Revenue Restrictions

The Commission has various restrictions placed over certain revenue sources. The primary restricted revenue sources include:

<i>Revenue Source</i>	<i>Legal Restrictions of Use</i>
Capital Fund Program	Modernization

For the year ended June 30, 2007, the Commission complied, in all material respects, with these revenue restrictions.

NOTE 3 - Detail Notes on Transaction Classes/Accounts

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3a. Cash and Investments

Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it or the Commission will not be able to recover collateral securities in the possession of an outside party. As of June 30, 2007, the Commission's bank balances of \$98,395.16, were insured by federal depository insurance or collateralized with securities held by the pledging financial institutions in the Commission's name.

Investments

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2007, the Commission's investments were \$122,384.21. These investments were insured by federal depository insurance or registered, or securities held by the Commission or its agent in the Commission's name.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3a. Cash and Investments (Continued)

Investments (Continued)

Credit Risk Investments, Concentrations of Credit Risk and Interest Rate Risk - Investments:

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commission will minimize credit risk by reviewing the financial institutions with which the Commission will do business so that potential losses on individual securities will be minimized.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission has chosen longer term investments due to current favorable rates. Longer terms will minimize the adverse effect of possible future declining rates.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the Commission's investment in a single issuer.

3b. Accounts Receivable

Receivables detail at June 30, 2007, is as follows:

Tenant accounts receivable	\$ 42,211.05
Allowance for doubtful accounts	<u>(26,569.21)</u>
Tenants accounts receivable - net	<u>\$ 15,641.84</u>

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3c Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Additions	(Retirements)	Balance June 30, 2007
Land	\$ 494,046.82	\$ ----	\$ ----	\$ 494,046.82
Building	10,399,054.48	----	----	10,399,054.48
Furniture, equipment and machinery- dwelling	142,486.80	----	(15,753.50)	126,733.30
Furniture, equipment and machinery- administration	218,217.60	360.17	----	218,577.77
Leasehold improvements	1,666,386.06	----	----	1,666,386.06
Construction in progress	<u>263,963.87</u>	<u>161,517.22</u>	<u>----</u>	<u>425,481.09</u>
	13,184,155.63	<u>\$ 161,877.39</u>	<u>\$ (15,753.50)</u>	13,330,279.52
Accumulated depreciation	<u>8,395,578.03</u>	<u>\$ 457,290.63</u>	<u>\$ (15,753.50)</u>	<u>8,837,115.16</u>
Total	<u>\$ 4,788,577.60</u>			<u>\$ 4,493,164.36</u>

3d. Accounts Payable

Payable detail at June 30, 2007, is as follows:

Accounts payable - vendors	\$ 21,360.99
Accounts payable - other government - PILOT	<u>15,267.62</u>
	<u>\$ 36,628.61</u>

3e. Compensated Absences

Accumulated unpaid compensated absences are accrued. The liability for compensated absences at June 30, 2007 is \$19,505.10.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3f. Non-current Liabilities

As of June 30, 2007, the non-current liabilities are comprised of the following:

Accrued compensated absences - non current portion	\$ <u>7,074.10</u>
Total	\$ <u>7,074.10</u>

The following is a summary of changes in non-current liabilities for the year ended June 30, 2007:

	<u>Balance June 30, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2007</u>	<u>Amounts Due within One Year</u>
Accrued compensated absences	\$ <u>6,366.82</u>	\$ <u>707.28</u>	\$ <u>----</u>	\$ <u>7,074.10</u>	\$ <u>12,431.00</u>
Total	\$ <u>6,366.82</u>	\$ <u>707.28</u>	\$ <u>----</u>	\$ <u>7,074.10</u>	\$ <u>12,431.00</u>

3g. Interprogram Transactions and Balances

Operating Transfers

	<u>Transfers in</u>	<u>Transfers out</u>
Public and Indian Housing - Low Rent Capital Fund Program	\$ <u>177,534.27</u> <u>----</u>	\$ <u>----</u> <u>177,534.27</u>
Total	\$ <u>177,534.27</u>	\$ <u>177,534.27</u>

Transfers are used to move revenues from the program that is authorized to transfer them to the program in accordance with budgetary authorizations.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3h. Unrestricted net assets - Prior-period Error Corrections

Following is the composite of error corrections:

1. Accounts receivable - HUD - transfer water accounts payable to low rent	\$ 124,468.33
2. Furniture, equipment and machinery - administration - capital amount previously expensed	360.17
3. Accounts payable - other - write off estimated utilities	44,000.00
4. Deferred revenue - transfer ordinary maintenance costs to low rent	<u>38,235.34</u>
Totals	<u>\$ 207,063.84</u>

NOTE 4 - Other Notes

4a. Employee Retirement Plan

The Commission does not provide a retirement plan for its employees.

4b. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees health and life; and natural disasters. The Commission manages these various risks of loss as follows:

Type of Loss	Method Managed
a. Torts, errors and omissions	Purchased insurance with Housing Authority Risk Retention Group
b. Injuries to employees (workers' compensation)	Purchased insurance with Accident Fund Insurance Company of America; Claims are administered by Accident Fund Insurance Company of America.
c. Physical property loss and natural disasters	Purchased commercial insurance with \$5,000 deductibles.
d. Health and life	Purchased health insurance with Total Health Care USA; Life insurance is provided by Met Life Small Business Center

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE 4 - Other Notes (Continued)

4c. Commitments and Contingencies

Commitments—Construction

At June 30, 2007, the Commission had the following pending construction projects in progress:

	<u>Funds Approved</u>	<u>Funds Expended - Project to Date</u>
CFP 501-05	\$ 309,133.00	\$ 179,438.15
CFP 501-06	<u>289,858.00</u>	<u>38,238.16</u>
	<u>\$ 598,991.00</u>	<u>\$ 217,676.31</u>

Contingencies

The Commission is subject to possible examination by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to the Commission in the current and prior years. No significant violations of finance-related legal or contractual provisions occurred.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

COMBINING STATEMENT OF NET ASSETS BY PROGRAM

June 30, 2007

	Low Rent Program	Capital Fund Program	Totals
ASSETS			
Current Assets:			
Investments	\$ 122,384.21	\$ ----	\$ 122,384.21
Receivable - net of allowances:			
Accounts	15,641.84	----	15,641.84
Prepaid expenses	<u>50,035.97</u>	<u>----</u>	<u>50,035.97</u>
Total Current Assets	<u>188,062.02</u>	<u>----</u>	<u>188,062.02</u>
Noncurrent Assets:			
Capital assets:			
Land, improvements, and construction in progress	494,046.82	425,481.09	919,527.91
Other capital assets, net of depreciation	<u>3,573,636.45</u>	<u>----</u>	<u>3,573,636.45</u>
Total capital assets- net	<u>4,067,683.27</u>	<u>425,481.09</u>	<u>4,493,164.36</u>
Total Noncurrent Assets	<u>4,067,683.27</u>	<u>425,481.09</u>	<u>4,493,164.36</u>
Total Assets	\$ <u>4,255,745.29</u>	\$ <u>425,481.09</u>	\$ <u>4,681,226.38</u>

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

COMBINING STATEMENT OF NET ASSETS BY PROGRAM (CONTINUED)

June 30, 2007

	Low Rent Program	Capital Fund Program	Totals
LIABILITIES			
Current Liabilities:			
Bank overdraft	\$ 27,608.88	\$ -----	\$ 27,608.88
Accounts Payable	36,628.61	-----	36,628.61
Accrued compensated absences	12,431.00	-----	12,431.00
Tenant security deposit liability	25,912.00	-----	25,912.00
Deferred revenues	<u>6,281.81</u>	<u>-----</u>	<u>6,281.81</u>
Total Current Liabilities	<u>108,862.30</u>	<u>-----</u>	<u>108,862.30</u>
Noncurrent Liabilities:			
Accrued compensated absences	<u>7,074.10</u>	<u>-----</u>	<u>7,074.10</u>
Total Noncurrent Liabilities	<u>7,074.10</u>	<u>-----</u>	<u>7,074.10</u>
Total Liabilities	<u>115,936.40</u>	<u>-----</u>	<u>115,936.40</u>
NET ASSETS			
Invested in capital assets	4,067,683.27	425,481.09	4,493,164.36
Unrestricted	<u>72,125.62</u>	<u>-----</u>	<u>72,125.62</u>
Total Net Assets	<u>4,139,808.89</u>	<u>425,481.09</u>	<u>4,565,289.98</u>
Total Liabilities and Net Assets	<u>\$ 4,255,745.29</u>	<u>\$ 425,481.09</u>	<u>\$ 4,681,226.38</u>

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

**COMBINING STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN FUND NET ASSETS BY PROGRAM**For Year Ended June 30, 2007

	Low Rent Program	Capital Fund Program	Totals
Operating Revenues:			
Rental revenue	\$ 215,839.76	\$ -----	\$ 215,839.76
Operating subsidies- HUD grants	511,245.72	238,873.31	750,119.03
Other revenues	22,407.66	-----	22,407.66
Total operating revenues	749,493.14	238,873.31	988,366.45
Operating Expenses:			
Personal services	379,284.85	17,712.54	396,997.39
Utilities	123,205.91	-----	123,205.91
Operations and maintenance	301,958.97	6,650.00	308,608.97
Insurance	86,120.47	-----	86,120.47
Payment in lieu of taxes	18,555.03	-----	18,555.03
Other supplies and expenses	200,258.55	36,976.50	237,235.05
Depreciation	457,290.63	-----	457,290.63
Total operating expenses	1,566,674.41	61,339.04	1,628,013.45
Operating income (loss)	(817,181.27)	177,534.27	(639,647.00)
Non-operating revenues (expenses):			
Interest and investment earnings	3,368.66	-----	3,368.66
Net non-operating revenues (expenses)	3,368.66	-----	3,368.66
Income (loss) before other revenues, expenses, gains, losses and transfers	(813,812.61)	177,534.27	(636,278.34)
Capital contributions	-----	161,517.22	161,517.22
Operating transfers in (out)	177,534.27	(177,534.27)	-----
Change in net assets	(636,278.34)	161,517.22	(474,761.12)
Net assets at beginning of year	4,569,023.39	263,963.87	4,832,987.26
Prior period error corrections	207,063.84	-----	207,063.84
Net assets adjusted at beginning of year	4,776,087.23	263,963.87	5,040,051.10
Net assets at end of year	\$ <u>4,139,808.89</u>	\$ <u>425,481.09</u>	\$ <u>4,565,289.98</u>

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM

For Year Ended June 30, 2007

	Low Rent Program	Capital Fund Program	Totals
Cash flows from operating activities:			
Cash received from tenants	\$ 217,899.74	\$ -----	\$ 217,899.74
Cash received from HUD grants- operating	604,977.33	238,873.31	843,850.64
Cash received from other operating activities	22,407.66	-----	22,407.66
Cash payments for goods and services	(698,080.48)	(43,626.50)	(741,706.98)
Cash payments to employees-salaries	(291,140.28)	(13,499.10)	(304,639.38)
Cash payments for employee benefit contributions	(78,867.85)	(4,213.44)	(83,081.29)
Cash payments for in lieu of property taxes	(9,180.39)	-----	(9,180.39)
Net cash provided (used) by operating activities	(231,984.27)	177,534.27	(54,450.00)
Cash flows from noncapital financing activities:			
Operating transfers in (out)	177,534.27	(177,534.27)	-----
Net cash provided (used) from non capital financing activities	177,534.27	(177,534.27)	-----
Cash flows from capital and related financing activities:			
Capital contributions	-----	161,517.22	161,517.22
Payments for capital assets	-----	(161,517.22)	(161,517.22)
Net cash (used) for capital and related financing activities	-----	-----	-----
Cash flows from investing activities:			
Proceeds from sale of (payments) for investments	(3,112.28)	-----	(3,112.28)
Interest and dividends	3,368.66	-----	3,368.66
Receipts (payments) from tenant security deposits	(21,321.00)	-----	(21,321.00)
Net cash provided (used) from investing activities	(21,064.62)	-----	(21,064.62)
Net increase (decrease) in cash and cash equivalents	(75,514.62)	-----	(75,514.62)
Cash and cash equivalents at beginning of year	75,514.62	-----	75,514.62
Cash and cash equivalents at end of year	\$ -----	\$ -----	\$ -----

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM (CONTINUED)

For Year Ended June 30, 2007

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (817,181.27)	\$ 177,534.27	\$ (639,647.00)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	457,290.63	----	457,290.63
Allowance for doubtful accounts	25,915.70	----	25,915.70
Changes in assets and liabilities:			
Receivables	66,791.63	----	66,791.63
Prepaid expenses	(1,418.45)	----	(1,418.45)
Accounts and other payables	24,256.51	----	24,256.51
Deferred revenues	3,084.26	----	3,084.26
Compensated absences	12,430.86	----	12,430.86
Accrued expenses	<u>(3,154.14)</u>	<u>----</u>	<u>(3,154.14)</u>
Net cash provided (used) by operating activities	\$ <u>(231,984.27)</u>	\$ <u>177,534.27</u>	\$ <u>(54,450.00)</u>

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
NOTES TO THE SCHEDULE OF FEDERAL AWARDS**

Year Ended June 30, 2007

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Fiscal Year</u>	<u>Federal Grantor</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	Public and Indian Housing Major - Direct Program		
2007	Low Rent Program	14.850a	\$ <u>511,245.72</u>
	Public and Indian Housing Major - Direct Program		
2007	Capital Fund program	14.872	\$ <u>400,390.53</u>
	Total		\$ <u>911,636.25</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1 - Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

**PHA'S STATEMENT AND CERTIFICATION OF
CAPITAL FUND PROGRAM COSTS**

June 30, 2007

1. Actual Capital Fund Program costs are as follows:

	<u>CFP 501-03</u>
Funds approved	\$ 277,567.00
Funds expended	<u>277,567.00</u>
Excess of Funds Approved	\$ <u>-----</u>
Funds advanced	\$ 277,567.00
Funds expended	<u>277,567.00</u>
Excess (deficiency) of Funds Advanced	\$ <u>-----</u>

2. The costs as shown on the Actual Cost Certificate dated July 22, 2006 submitted to HUD for approval is in agreement with the PHA's records as of June 30, 2007.
3. All costs have been paid and all related liabilities have been discharged through payments.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

**PHA'S STATEMENT AND CERTIFICATION OF
CAPITAL FUND PROGRAM COSTS**

June 30, 2007

1. Actual Capital Fund Program costs are as follows:

	<u>CFP 502-03</u>
Funds approved	\$ 58,624.00
Funds expended	<u>58,624.00</u>
Excess of Funds Approved	\$ <u>-----</u>
Funds advanced	\$ 58,624.00
Funds expended	<u>58,624.00</u>
Excess (deficiency) of Funds Advanced	\$ <u>-----</u>

2. The costs as shown on the Actual Cost Certificate dated March 3, 2006 submitted to HUD for approval is in agreement with the PHA's records as of June 30, 2007.
3. All costs have been paid and all related liabilities have been discharged through payments.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

**PHA'S STATEMENT AND CERTIFICATION OF
CAPITAL FUND PROGRAM COSTS**

June 30, 2007

1. Actual Capital Fund Program costs are as follows:

	<u>CFP 501-04</u>
Funds approved	\$ 324,803.00
Funds expended	<u>324,803.00</u>
Excess of Funds Approved	\$ <u>-----</u>
Funds advanced	\$ 324,803.00
Funds expended	<u>324,803.00</u>
Excess (deficiency) of Funds Advanced	\$ <u>-----</u>

2. The costs as shown on the Actual Cost Certificate dated April 16, 2007 submitted to HUD for approval is in agreement with the PHA's records as of June 30, 2007.
3. All costs have been paid and all related liabilities have been discharged through payments.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

FINANCIAL DATA SCHEDULE

Year Ended June 30, 2007

FDS Line Item No.		Low Rent Program 14.850a	Capital Fund Program 14.872	Total
	Assets:			
	Current Assets:			
	Cash			
114	Cash-tenant security deposits	\$ 25,912.00	\$ -----	\$ 25,912.00
100	Total cash	25,912.00	-----	25,912.00
	Accounts and notes receivable:			
126	Accounts receivable- tenants-dwelling rents	42,211.05	-----	42,211.05
126.1	Allowance for doubtful accounts-dwelling rents	(26,569.21)	-----	(26,569.21)
120	Total receivables, net of allowance for doubtful accounts	15,641.84	-----	15,641.84
	Current investments:			
131	Investments-unrestricted	122,384.21	-----	122,384.21
142	Prepaid expenses and other assets	50,035.97	-----	50,035.97
150	Total current assets	213,974.02	-----	213,974.02
	Noncurrent Assets:			
	Fixed assets:			
161	Land	494,046.82	-----	494,046.82
162	Buildings	10,399,054.48	-----	10,399,054.48
163	Furniture, equipment and machinery-dwellings	126,733.30	-----	126,733.30
164	Furniture, equipment and machinery-administration	218,577.77	-----	218,577.77
165	Leasehold improvements	1,666,386.06	-----	1,666,386.06
166	Accumulated depreciation	(8,837,115.16)	-----	(8,837,115.16)
167	Construction in progress	-----	425,481.09	425,481.09
160	Total fixed assets, net of accumulated depreciation	4,067,683.27	425,481.09	4,493,164.36
180	Total noncurrent assets	4,067,683.27	425,481.09	4,493,164.36
190	Total Assets	\$ 4,281,657.29	\$ 425,481.09	\$ 4,707,138.38

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2007

FDS Line Item No.		Low Rent Program 14.850a	Capital Fund Program 14.872	Total
	Liabilities and Equity:			
	Liabilities:			
	Current Liabilities:			
311	Bank overdraft	\$ (53,520.88)	\$ -----	\$ (53,520.88)
312	Accounts payable < 90 days	(21,360.99)	-----	(21,360.99)
322	Accrued compensated absences- current portion	(12,431.00)	-----	(12,431.00)
333	Accounts payable -other government	(15,267.62)	-----	(15,267.62)
341	Tenant security deposits	(25,912.00)	-----	(25,912.00)
342	Deferred revenues	<u>(6,281.81)</u>	<u>-----</u>	<u>(6,281.81)</u>
310	Total current liabilities	<u>(134,774.30)</u>	<u>-----</u>	<u>(134,774.30)</u>
	Noncurrent Liabilities:			
354	Accrued compensated absences- non current portion	<u>(7,074.10)</u>	<u>-----</u>	<u>(7,074.10)</u>
350	Total noncurrent liabilities	<u>(7,074.10)</u>	<u>-----</u>	<u>(7,074.10)</u>
300	Total liabilities	<u>(141,848.40)</u>	<u>-----</u>	<u>(141,848.40)</u>
	Equity:			
508.1	Investment in capital assets , Net of Related Debt	<u>(4,067,683.27)</u>	<u>(425,481.09)</u>	<u>(4,493,164.36)</u>
512.1	Unrestricted Net Assets	<u>(72,125.62)</u>	<u>-----</u>	<u>(72,125.62)</u>
600	Total Liabilities and Equity	<u>\$ (4,281,657.29)</u>	<u>\$ (425,481.09)</u>	<u>\$ (4,707,138.38)</u>

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2007

FDS Line Item No.		Low Rent Program 14.850a	Capital Fund Program 14.872	Total
Revenue:				
703	Net rental revenue	\$ (337,689.38)	\$ -----	\$ (337,689.38)
705	Total tenant revenue	(337,689.38)	-----	(337,689.38)
706	HUD PHA operating grants	(511,245.72)	(238,873.31)	(750,119.03)
706.1	HUD PHA capital grants	-----	(161,517.22)	(161,517.22)
711	Investment income-unrestricted	(3,368.66)	-----	(3,368.66)
715	Other revenue	(22,407.66)	-----	(22,407.66)
700	Total revenue	(874,711.42)	(400,390.53)	(1,275,101.95)
Expenses:				
Administrative				
911	Administrative salaries	131,736.66	13,499.10	145,235.76
912	Auditing fees	113.77	21,200.00	21,313.77
913	Outside management fees	40,530.00	-----	40,530.00
914	Compensated absences	12,430.86	-----	12,430.86
915	Employee benefit contributions-administrative	32,583.88	4,213.44	36,797.32
916	Other operating-administrative	159,614.78	15,004.00	174,618.78
Tenant services				
922	Relocation costs	-----	772.50	772.50
Utilities				
931	Water	88,458.53	-----	88,458.53
932	Electricity	24,073.54	-----	24,073.54
933	Gas	10,673.84	-----	10,673.84
Ordinary maintenance and operation				
941	Ordinary maintenance and operation-labor	156,249.48	-----	156,249.48
942	Ordinary maintenance and operation-materials & other	77,483.95	-----	77,483.95
943	Ordinary maintenance and operation-contract costs	220,790.89	6,650.00	227,440.89
945	Employee benefit contributions-ordinary maintenance	46,283.97	-----	46,283.97

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2007

FDS Line Item No.		Low Rent Program 14.850a	Capital Fund Program 14.872	Total
	Protective services			
952	Protective services-other contract costs	3,684.13	-----	3,684.13
	General expenses			
961	Insurance premiums	86,120.47	-----	86,120.47
963	Payments in lieu of taxes	18,555.03	-----	18,555.03
964	Bad debts- tenant rents	121,849.62	-----	121,849.62
969	Total operating expenses	1,231,233.40	61,339.04	1,292,572.44
970	Excess (deficit) operating revenue over operating expenses	(356,521.98)	339,051.49	(17,470.49)
974	Depreciation expense	457,290.63	-----	457,290.63
	Total expenses other than total operating	457,290.63	-----	457,290.63
1000	Excess (deficit) of revenue over expenses before operating transfers in (out) and depreciation add back	(813,812.61)	339,051.49	(474,761.12)
1001	Operating transfers in	177,534.27	-----	177,534.27
1002	Operating transfers out	-----	(177,534.27)	(177,534.27)
	Excess (deficit) of revenue over expenses after operating transfers in (out) and depreciation add back	\$ (636,278.34)	\$ 161,517.22	\$ (474,761.12)

Sailor

Certified Public Accountants

Khan & Co. LLC

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

Board of Commissioners
City of Ecorse Housing Commission
Ecorse, Michigan

We have audited the basic financial statements of the City of Ecorse Housing Commission, Michigan, (Commission) as of and for the year ended June 30, 2007, and have issued our report thereon dated March 6, 2008 which was qualified because of the weak condition of the Commission's records due to lack of controls over its accounting system and supporting documentation. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

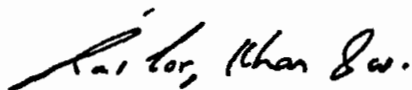
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above we consider items 3 and 4 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs.

The Commission's written response to the findings identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and uses of management, the Board of Commissioners, others within the Commission, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Sailor, Khan & Co. LLC
March 6, 2008

**Report on Compliance with Requirements Applicable to Each Major Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133**

Board of Commissioners
City of Ecorse Housing Commission
Ecorse, Michigan

Compliance

We have audited the compliance of the City of Ecorse Housing Commission, Michigan, (Commission) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

Except for the matters noted in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commission's compliance with those requirements.

As described in finding number 8, 9 and 10 in the accompanying schedule of findings and questioned costs, the Commission did not comply with requirements regarding Special Tests and Provision that are applicable to its Public and Indian Housing - Low Rent Program. Compliance with such requirements is necessary, in our opinion, for the Commission to comply with requirements applicable to that program..

In our opinion, except for the noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs.

Internal Control Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal program. In planning and performing our audit, we considered the Commission's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

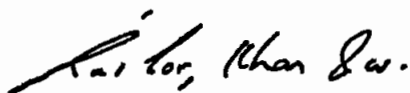
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Commission's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *control deficiency* in an Commission's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Commission's internal control. We consider the significant deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The Commission's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Commission's written response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the City of Ecorse Housing Commission, Michigan's management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Sailor, Khan & Co. LLC
March 6, 2008

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

SIGNIFICANT DEFICIENCIES COMMUNICATED IN PRIOR YEARS

June 30, 2007

The prior audit report for the year ended June 30, 2006 contained a total of nine audit findings:

Financial Statement Findings

- | | | |
|----|-----------------|---|
| 1. | Finding: | Property and Equipment Schedule |
| | Status: | Implemented |
| 2. | Finding: | General Ledger |
| | Status: | Implemented |
| 3. | Finding: | Excessive Audit Adjustments |
| | Status: | Implemented |
| 4. | Finding: | Tenant Accounts Receivable Write Offs |
| | Status: | Implemented |
| 5. | Finding: | Fixed Asset Inventory and Capitalization Policy |
| | Status: | Not implemented - see current finding #2 |
| 6. | Finding: | Bank Reconciliation |
| | Status: | Implemented |
| 7. | Finding: | Payroll |
| | Status: | Implemented |

Federal Awards Findings

- | | | |
|----|-----------------|--|
| 8. | Finding: | Property and Equipment Schedule (same as finding #1) |
| | Status: | Implemented |
| 9. | Finding: | Unlocated information |
| | Status: | Not implemented - see current finding #10 |

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2007

SECTION I - SUMMARY OF AUDITOR RESULTS

Financial Statement:

Type of auditor's report issued:	Qualified
Internal control over financial reporting:	
▶ Material weakness(es) identified?	Yes
▶ Significant deficiency (ies) identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	Yes
Is a "going concern" explanatory paragraph included in audit report?	No

Federal Awards:

Internal control over major programs:	
▶ Material weakness(es) identified?	Yes
▶ Significant deficiency (ies) identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) on Circular A-133?	Yes
Identification of major programs:	

CFDA	
Number(s)	Name of Federal Program
14-850a	Public and Indian Housing
14-872	Public and Indian Housing - Capital Fund Program

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2007

SECTION II - FINANCIAL STATEMENT FINDINGS

The current audit report for the year ended June 30, 2007 disclosed the following Financial Statement audit findings:

1. Journal Entry Support

Criteria:

The Housing Commission must provide adequate support for all journal entries.

Condition:

Numerous journal entries were made between the Low Rent and Capital Fund Program in the maintenance contract costs account with no adequate description as to supporting detail.

Questioned Costs:

None

Effect:

The Housing Commission does not have adequate support for journal entries.

Cause:

The Commission did not exercise adequate control over the general ledger and reporting functions.

Recommendation:

We recommend the Commission exercise more care in processing and recording transactions to ensure the integrity of its financial system.

Management's Response:

Journal Entry Support – EHC disagrees with the auditor's statement of not exercising adequate control over the general ledger and reporting functions. EHC has provided the auditor with documentation for journal entries made between the Low Rent and Capital Fund Program. A detailed list of expenses submitted to HUD on all Capital Fund draw downs was provided to the auditor. The journal entries made are reflective of the draw downs as approved by HUD. However, we recognize improvements can be made and we will ensure that proper documentation is filed and made available in the future for audit purposes.

Action Plan:

The capitalization policy will be reviewed and updated by the May 5, 2008 Board meeting.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2007

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2. Fixed Asset Inventory and Capitalization Policy

Criteria:

The Housing Commission must capitalize items costing \$500 or more and have a useful life of greater than one year.

Condition:

Upon review of the Commission's property and equipment schedule, we noted the Commission capitalized several furniture, equipment, and machinery items costing less than \$500. In addition during our review of the maintenance contract cost account we noted several amounts exceeding the capitalization policy that were for the rehabilitation of vacated and damaged apartments.

Questioned Costs:

None

Effect:

The Commission was not in compliance with its' capitalization policy.

Cause:

Appropriate supervision was not in place.

Recommendation:

The Commission must capitalize items individually costing \$500 or more. We recommend the Commission review its property and equipment schedule to ensure compliance with its policy.

Management's Response:

Fixed Asset Inventory and Capitalization Policy - EHC recognizes that the Capitalization Policy needs to be updated. A new Capitalization Policy will be developed and adopted by the Board of Commissioners.

Action Plan:

The capitalization policy will be reviewed and updated by the May 7, 2008 Board meeting.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2007

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

3. Excessive Tenant Accounts Receivable Write Offs

Criteria:

Individual tenant account receivable balances must be reviewed monthly to ensure proper action is taken against long outstanding and excessive balances.

Condition:

We noted numerous large tenant balances written off in fiscal year 2007.

Questioned Costs:

None

Effect:

Considerable amounts due were not collected.

Cause:

Management has not taken adequate steps to collect on tenant accounts receivable balances.

Recommendation:

We recommend the Ecorse Housing Commission review their monthly tenant accounts receivable aging schedules and take appropriate action on delinquent balances.

Management's Response:

Excessive Tenant Accounts Receivable Write-offs – In the previous year audit, the auditor had issued a finding indicating High Tenant Accounts Receivable. To respond to that finding EHC has taken the step of reviewing all accounts and adopted a board resolution to write off the uncollectible balances. Due to the history of the Housing Commission challenges, the Tenant Accounts Receivable has grown to be excessive high in the previous years. EHC in its effort to increase the efficiency of the Public Housing program has taken the first step in writing off Tenant Accounts that are uncollectible and will referred them to a collection agency. EHC disagrees with the auditor's statement that "Management has not taken adequate steps to collect on tenant accounts receivable balances". EHC aggressively pursues rent collections on a monthly basis and filing tenants in court that become delinquent for more than thirty days.

Action Plan:

Ecorse Housing Commission will continue to monitor all accounts on monthly bases.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2007

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

4. Tenant Accounts Receivable Subsidiary Ledger

Criteria:

Maintaining and controlling the tenant accounts receivable subsidiary ledger is imperative to the integrity of the general ledger.

Condition:

The tenant subsidiary ledger was not reconciled with the general ledger.

Questioned Costs:

None

Effect:

The tenant accounts receivable, tenant prepaid rent and its related accounts may not be accurate.

Cause:

Management does not reconcile the tenant accounts receivable balance to the general ledger on a monthly basis and does not exercise adequate control over the accounting system.

Recommendation:

We recommend the subsidiary ledgers be adequately maintained and reconciled with the general ledger monthly with due consideration to necessary controls.

Management's Response:

Tenant Account Receivable Subsidiary Ledger – Management has set up the practice of reconciling the tenant ledger to the general ledger. We recognize the balances in the tenant ledger need to be corrected. This issue is reflective of audit finding # 3. In FY 2007 – 2008, we will post adjusting entry as recommended by the auditor and ensure that the monthly balance of tenant ledger matches to the general ledger.

Action Plan:

Ecorse Housing Commission will post adjusting entry as recommended by the auditor and ensure that the monthly balance of tenant ledger matches to the general ledger.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2007

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

5. Budget Overruns

Criteria:

The Housing Commission must operate within budget constraints.

Condition:

We noted the following budget overruns for fiscal year ending June 30, 2007:

Description	Budget	Actual	Overruns
Administration	\$ 203,123.00	291,465.21	\$ 88,342.21
Utilities	93,750.00	123,205.91	29,455.91
Ordinary Maintenance and Operation	287,812.00	454,524.32	166,712.32
Protective Services	300.00	3,684.13	3,384.13
General Expense	113,500.00	205,787.66	92,287.66
Total Operating Expenditures	701,185.00	1,205,317.70	504,132.70

Questioned Costs:

None

Effect:

The Housing Commission exceeded the operating budget in the aforementioned categories.

Cause:

The Housing Commission did not ensure that these budget categories were not exceeded.

Recommendation:

We recommend that the Housing Commission place greater emphasis on operating within the budget constraints. Also, when it appears that the current budget has become insufficient, the Housing Commission must prepare a budget revision.

Management's Response:

EHC will closely monitor the operating budget. Management will submit revised budget to the Board for review and adoption, if changes to the original budget are required.

Action Plan:

Ecorse Housing Commission will continue to monitor the operating budget on a monthly bases.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2007

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

6. Internal Control Policy

Criteria:

To ensure effectiveness of Internal Control, there needs to be an adequate design of internal controls describing the separation of primary functions. Internal control design must be considered to create effective segregation of primary duties and to strengthen the control environment.

Condition:

The Authority has an internal control policy but it needs to be updated to reflect separation of the primary functions and compensating controls.

Questioned Costs:

none

Effect:

There is an increased risk of error and other intentional activities that could affect the integrity of the financial statements or physical custody of assets.

Cause:

The Authority is in the process of updating its internal control policy.

Recommendation:

We recommend the Authority's management and its Board design a system of internal control that would address an effective internal control system.

Management's Response:

EHC has provided their Internal Control Policy document to the auditor. There were no discussions by the auditor when the document was provided. We were surprised of the audit finding and disagree with the auditor. If improvements are needed to the document, we welcome recommendations as to how best it can be improved. The auditor does not provide any guidance on this nor was able to identify how the policy would not provide the integrity of the financial statements or physical custody of assets.

Action Plan:

Ecorse Housing Commission will update their internal control policy to clarify established duties and responsibilities for each staff member.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2007

SECTION III - FEDERAL AWARD FINDINGS

The current audit report for the year ended June 30, 2007 disclosed the following Federal Awards audit findings:

7. Excessive Tenant Accounts Receivable Write Offs (Same as finding #3)

Federal Award:

14-850a - Public and Indian Housing - Low Rent Program

Criteria:

Individual tenant account receivable balances must be reviewed monthly to ensure proper action is taken against long outstanding and excessive balances.

Condition:

We noted numerous large tenant balances written off in fiscal year 2007.

Questioned Costs:

None

Effect:

Considerable amounts due were not collected.

Cause:

Management has not taken adequate steps to collect on tenant accounts receivable balances.

Recommendation:

We recommend the Ecorse Housing Commission review their monthly tenant accounts receivable aging schedules and take appropriate action on delinquent balances.

Management's Response:

This is a repeat finding of finding #3. We do not understand the reason as to why the audit finding is being repeated.

Action Plan:

Ecorse Housing Commission will continue to review their monthly tenant accounts receivable aging schedules and take appropriate action on delinquent balances.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2007

SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)

8. Tenant Accounts Receivable Subsidiary Ledger (Same as finding #4)

Federal Award:

14-850a - Public and Indian Housing - Low Rent Program

Criteria:

Maintaining and controlling the tenant accounts receivable subsidiary ledger is imperative to the integrity of the general ledger.

Condition:

The tenant subsidiary ledger was not reconciled with the general ledger.

Questioned Costs:

None

Effect:

The tenant accounts receivable, tenant prepaid rent and its related accounts may not be accurate.

Cause:

Management does not reconcile the tenant accounts receivable balance to the general ledger on a monthly basis and does not exercise adequate control over the accounting system.

Recommendation:

We recommend the subsidiary ledgers be adequately maintained and reconciled with the general ledger monthly with due consideration to necessary controls.

Management's Response:

This is a repeat finding of finding #4. We do not understand the reason as to why the audit finding is being repeated. The auditor has done the audit of previous fiscal year and has not recognized this finding twice.

Action Plan:

Ecorse Housing Commission will reconcile the tenant accounts receivable balance to the general ledger on a monthly basis and will exercise adequate control over the accounting system.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2007

SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)

9. Unlocated information

Federal Award:

14-850a - Public and Indian Housing - Low Rent Program
14.872 - Public and Indian Housing - Capital Fund Program

Criteria:

Requested information should be readily available.

Condition:

We noted that the Housing Commission could not locate a significant portion of documents pertaining to the FY 2007 PHAS Submission.

Questioned Costs:

None

Effect:

Unavailability of supporting information affects the integrity of the operation.

Cause:

It appears the Commission did not devote sufficient attention to this function.

Recommendation:

We recommend the Commission place greater emphasis in safe keeping its records.

Management's Response:

We have provided documentation pertaining to FY 2007 PHAS submission. We disagree to the auditor's comment that the Commission did not devote sufficient attention to this function. We are open to recommendations as to how best we can improve our process and filing of documents. But merely stating that the Commission has been in adequate is not a true reflection of the condition.

Action Plan:

Ecorse Housing Commission will continue to improve our documentation system pertaining to PHA Submission.